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TAGS: EFIN ECON PGOV EAIR ETRD I2
SUBJECT: FINANCE MINISTER JABR ON BUDGET AND GOVERNMENT DEBT

REF: A. BAGHDAD 1437
1B. BAGHDAD 1146
1C. BAGHDAD 986
1D. BAGHDAD 643

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Classified By: Ambassador Patricia Haslach for reasons 1.4 (b,d)

11. (C) Summary: The DCM for Assistance Transition, BG Lanza, Emin, and Finatt met July 16 with Minister of Finance Jabr, Special Advisor to the Minister of Finance Dr. Aziz, and Central Bank of Iraq Governor Shabibi to introduce the DCM and discuss a variety of issues. Minister Jabr discussed the 2009 supplemental budget and the CoR debate on the issuance of debt for payments to General Electric. He responded to questions about funding for the parliamentary election, payments to the air traffic controller contractor, additional funds for the Ministry of Electricity, and funding for the Sons of Iraq, all of which would be included in a 2009 supplemental budget. Minister Jabr, Dr. Aziz and Governor Shabibi discussed the microfinance initiative of the IFC and the findings of the Department of the Treasury advisor reviewing the government debt securities market. End Summary.

2010 budget outlook

12. (C) In response to the DCM's question about current developments, the Minister explained that he was busy with a high level committee of cabinet officials developing the budget strategy for 2010 and later years. He noted that the assumptions for oil prices were tentatively set at \$58 a barrel for the 2010 budget with export sales of 2.15 million barrels a day, on average. Oil prices were assumed to be \$63 for 2011 and \$68 for 2012. He explained that these were a bit higher than IMF forecasts but within the range of OPEC estimates. This, in his view was conservative. June was a good month for oil revenues and the first half of July has witnessed exports of around 2.1 million barrels a day. The discussion turned to the benefits of using conservative estimates, given the vagaries of the oil market, and the benefits of a medium term framework for budget planning purposes.

2009 Supplemental Budget

13. (C) Minister Jabr told the DCM for Assistance Transition and Finatt on July 16 that the Ministry of Finance is working on a supplemental budget for 2009. Among other measures (see below) the proposed supplemental would provide funds to Mosul (Ninewa) and Diyala provinces. This statement confirmed an earlier statement by Minister Jabr to EMIN and Finatt on June 3. Minister Jabr acknowledged that the IMF has called for conservative spending, but he repeated his words on June 3 that it is not justice8 to penalize Mosul and Diyala for having failed to execute their budgets due to violence in their provinces.

14. (C) Funding for election preparations by IHEC also will be included in the 2009 supplemental budget, according to Minister Jabr. He did not provide any details on when the funds transfers will occur. He also mentioned USD 500 to 600 million for the Ministry of Electricity for projects, but, he

was quick to add, not for GE payments.

General Electric Payments

¶5. (C) Minister Jabr expressed doubt about whether the Council of Representatives (CoR) will pass a measure authorizing the issuance of debt for payments to General Electric and Siemens. He felt that the amount of time that had passed indicates that the CoR may have turned against the measure. Finatt pointed out that the problem in passing the measure has been lack of sufficient attendance by CoR members, which has made it impossible to obtain the absolute majority of CoR members required to approve the issuance of Qbonds under Article 45 of the budget law. The measure passed with a substantial majority of 110 of 139 votes cast when the CoR voted on it in June. Finatt explained that the CoR Finance Committee has proposed to vote to change the requirement for passage from an absolute to a simple majority that would ease passage of the funding. (Note: the CoR on July 25 voted down a proposal to remove Article 45 from the budget law; the amendment to require only a simple majority is still possible. However, the Central Bank, Finance Ministry, and CoR Finance Committee continue to hammer out the details of a possible work-around.)

¶6. (C) Minister Jabr and the DCM also discussed the broader context of the problem of payments to General Electric and Siemens. Minister Jabr recalled the involvement of General Petraeus and Ambassador Crocker in the negotiation of the contract with General Electric, and pointed out that the problem exists because of the contract being finalized quickly but too late to be included in the budget process for ¶2009. He raised the possibility of reducing Iraq's total payment obligation by first paying only General Electric, not Siemens. The DCM emphasized that the U.S. government is working to encourage U.S. investment in Iraq, and that

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Iraq's treatment of leading American companies like General Electric and Boeing will have a significant effect on the willingness of U.S. firms to do business in Iraq. She indicated that positive news during the PM's upcoming visit to Washington) during which business issues will feature prominently - would provide good news to those looking to invest in Iraq.

Jabr Visit to the United States

¶7. (C) Minister Jabr said that PM Maliki had asked him to travel as part of his delegation to Washington, but said he was too busy to leave Baghdad at this time. He said that he plans to visit the United States after the annual World Bank/IMF meeting in Istanbul in October. The DCM and Emin pointed out that a visit in October could coincide with an Iraq investment conference that will be hosted by the U.S. Chamber of Commerce in Washington, DC on October 20-21. That event would be preceded by a USG-Iraq meeting on economic issues, including finance, so the Minister's visit would be timely. Finatt recalled that Trade Bank of Iraq (TBI) has a banking conference in Washington, DC planned for around that time. Minister Jabr thought that the TBI banking conference has been delayed because of the international banking conference that the Ministry of Finance will hold in Baghdad. Emin and Finatt said that they would follow up with TBI to ensure no conflict of the events.

Iraq Financial Management Information System

¶8. (C) The DCM praised the progress made by the Ministry of Finance in implementing the Iraq Financial Management Information System (IFMIS). Minister Jabr stated that the Ministry of Finance is in the process of working on a memorandum

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